



Memo

April 16, 2008

To: CalPERS Health Benefits Committee
From: Watson Wyatt Worldwide
Subject: CalRHIO

Summary

Watson Wyatt Worldwide was asked to provide an opinion on the position that CalPERS should take regarding the CalRHIO initiative and the level of support they should consider offering to CalRHIO. Throughout the process of assessing the merits of CalRHIO we have provided commentary at meetings and in the form of email communications.

The opinion that follows is formulated from various sources of information including documents furnished by CalRHIO, the Mercer report, attendance at a meeting on April 1st with CalRHIO, Medicity, Staff and Mercer, and on research of publicly available literature on the subjects of RHIOs (regional health information organizations) and health information exchanges (HIE). Our thoughts also incorporate the most recent information obtained subsequent to the April 1 meeting at CalPERS.

Overall Opinion and Recommendations

There is broad consensus among health care experts that creating robust health information exchanges (HIE) is vital to improving health care quality and efficiency. While numerous RHIO initiatives have either expired or never became operational, according to the Health Information and Management Systems Society (HIMSS), there are currently 390 active and 94 proposed RHIOs throughout the country.

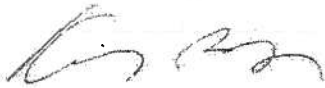
Therefore, we agree with the three Staff Recommendations outlined in AGENDA ITEM 4c ("agenda item"). We also agree with Staff's list of seven requirements and conditions as outlined in the agenda item, and propose that Staff be instructed to pursue those requirements, as well as address a few additional points with CalRHIO as outlined later in this opinion letter.

It should be noted that, while it is unclear from the wording in the agenda item whether the three recommendations are contingent on the satisfactory completion of the seven requirements and conditions, Watson Wyatt recommends moving forward with the recommendations and pursuing the requirements and conditions at the same time. In other words, the conditions and requirements should not delay approval of the three core recommendations.

In addition to the seven requirements and conditions outlined in the agenda item, Watson Wyatt recommends that Staff pursue the following:

1. Request from CalRHIO a detailed, multi-year financial model (proforma) that includes sources of funding, revenue from operations, expenses, and key assumptions. The financial model should, among other things, address the proposed financing of Phase I, Release 2.0 (expanding the user base to physician offices).
2. Ask CalRHIO for a contingency financial plan in the event of the following scenario: During Phase I the initial seed and private equity funds are exhausted, revenue generated from point-of-service claims is less than initially anticipated (due to low volume of ED usage of the HIE), and an economic climate of limited access to capital markets limits their ability to raise additional funds.
3. Obtain an explanation from CalRHIO that assures CalPERS that when claims are paid by the health plans on behalf of CalPERS members, they accurately reflect that data exchange services were successfully executed at the point-of-service and that the patients for whom the services were performed are eligible CalPERS members. In addition, CalRHIO should agree to periodic audits of claim payment accuracy in a manner that is acceptable to CalPERS.
4. Seek clarification from CalRHIO of what is meant by the term 'commitment' as it is used in the sentence "The triggering event for Phase I financing is securing the *commitment* of at least three major health plans in California to participate in the CalRHIO HIE initiative." For example, is the threshold for commitment a Memorandum of Understanding or a formal signed contract? This language is contained in a follow up document prepared by CalRHIO, entitled "*CalRHIO Proposed Addendum to Mercer Evaluation Topic: CalRHIO HIE Funding and Transparency.*"

Finally, it should be noted that, while Staff is recommending that "*All CalPERS high-volume California hospitals should be included in Phase I of the CalRHIO development plan*", the HBC Committee should be aware that not all CalPERS high-volume hospitals will likely participate in the CalRHIO program.



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